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SUBJECT: BOLIVIA'S MACRO-ECONOMIC SNAPSHOT

REF: A. LA PAZ 3259
¶B. LA PAZ 3150
¶C. LA PAZ 3098

Summary

¶1. (SBU) Entering 2008, the Bolivian economy seems likely to suffer the consequences of recent political mismanagement. In 2007, overall GDP growth slowed to between 3.8% and 4.2% (well below the 5.6% average for the region) and almost all sectors of the economy are showing the effects of several years of minimal investments. High levels of liquidity in the economy benefited some industries (in particular construction), but also helped push inflation up nearly three-fold in 2007 to around 12%. Bolivians are clearly worried about the economy; regardless, politics continues to dominate the thinking of the nation's leaders. End Summary.

The Macro-Economy

¶2. (U) Depending on whose figures are to be believed, Bolivia's growth rate fell to about 4% in 2007, down from 4.6% in 2006. (Note: The Economic Commission for Latin America and the Caribbean (CEPAL) estimates the GDP rate to be around 3.8%, while the Bolivian government puts the figure at 4.2%. Taking either figure, Bolivian GDP growth was well below the regional average of 5.6%, ahead of only Mexico, Haiti, Nicaragua, and Ecuador. End note.)

¶3. (SBU) Economic growth is particularly disappointing considering the high prices that Bolivia's primary exports enjoyed in international markets. These should be boom times for the country; however, hostile policies toward business, unclear legal protection, and social unrest have all contributed to a negative investment rate of $120 million over 2007, the worst figure in the last 20 years. This lack of investment is starting to show in production levels which

have fallen across the hydrocarbon, mining, and agricultural sectors (growth rates continued to be positive only because of rising prices).

Inflation

¶4. (U) The most pressing immediate issue for the Bolivian people is inflation. The government reported an official rate of 11.73% for the year, but experts are disputing the figures. Indeed, for Bolivians whose lunch costs have risen by 47% (Ref. A), the official numbers do not ring true. Excess liquidity in the economy was the primary culprit in
¶2007. Commodity prices and improved terms of trade, remittances (which now represent nearly 8% of GDP and increased some 25% in 2007), narco-trafficking, and debt forgiveness all contributed to increased inflationary pressure. Surprising, considering the government's populist stance, increases in discretionary spending over 2007 were somewhat controlled (distributing around $100 million in Venezuelan checks helped), but new entitlement programs have recently institutionalized additional commitments and are likely to push inflation even higher. For example, the new pension program increases spending in the area by over 12% in
¶2008. Even more ominous, government salaries are set to be renegotiated over the next few months. In the past, these negotiations have been a catalyst for runaway inflation. Salaries currently represent 48% of the national budget.

Some Positives

¶5. (U) Bolivia will register a budget surplus of around 4% in 2007, its highest ever. Moreover, areas of the economy able to capitalize on the excess of liquidity did very well in 2007. Leading the list was construction, which grew by 12.5% through September. It was followed by financial services (5.6%), transport (5.4%), manufacturing (5.2), electricity, gas, and water (5%), communications (4.8%), and commerce (4.4%), all of which will have grown at rates higher than that of the overall economy. Additionally, the trade surplus will come in at around $1.3 billion for 2007, a new high (although through October exports grew at only 10.7%, while imports grew by 19.6%, which may indicate that large trade surpluses may not last). According to the National Institute of Statistics (INE), the four largest export sectors in 2007 (through November) were hydrocarbons ($2 billion), manufacturing ($1.2 billion), mining ($929 million), and agriculture ($169 million).

¶6. (U) Growth was particularly strong within the manufacturing sector where exports are set to rise by over 11% for the year. The United States remains Bolivia's largest market (55% of the total); however, fear is building that government actions may jeopardize ATPDEA trade benefits. In 2006, exports under the threatened ATPDEA program amounted to $166 million and investors in the sector fear that they may be forced to move operations to neighboring countries to hold onto their export markets. Indeed, informal reports are already making the newspapers of jewelry, textile, leather, and furniture manufacturers moving the finishing stages of their products to Chile or Peru in order to facilitate export to the United States.

Comment

¶7. (SBU) Looming over all areas of the private sector is the threat of greater state intervention as promised in the proposed new constitution. Water, electrical, and telecommunication services are all threatened by a document

that asserts exclusive state control over productive or commercial activities considered to be vital public services. Moreover, extractive industries are also likely to need to renegotiate their activities in light of a more interventionist constitution. It is not surprising therefore, that investment levels continue to be low leading into the new year. Bolivia faces a high probability of electrical shortages (Ref. B) and an almost certain inability to meet its international gas contract obligations (Ref. C). Moreover, the possibility of further social unrest further clouds the economic horizon. Economics has taken a back seat to politics in the Morales administration, and unfortunately even difficult times ahead are unlikely to change this focus.

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